

INFORMATION BULLETIN # 92

INCOME TAX

AUGUST 2004

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SUBJECT: Individual Earned Income Tax Credit (EITC) Procedures

REFERENCES: IC 6-3-4-8; IC 6-3.1-21

INTRODUCTION:

The Indiana earned income tax credit is effective until December 31, 2005. The statute requires the Department to allow an advance payment of the earned income tax credit through reduced income tax withholdings.

I. CALCULATION OF THE EARNED INCOME CREDIT

An individual is eligible for the Indiana earned income tax credit if the person is eligible for the federal earned income tax credit under Section 32 of the Internal Revenue Code. The Indiana credit amount is equal to six percent (6%) of the amount of federal earned income tax credit that the individual is eligible to receive and claim for the taxable year.

If the credit amount exceeds the taxpayer's actual tax liability for the taxable year, the excess credit shall be refunded to the taxpayer.

II. CALCULATION OF ADVANCE EARNED INCOME CREDIT PAYMENTS

An employee subject to withholding of Indiana adjusted gross income tax may request his/her employer to reduce the amount of adjusted gross income tax withheld as an advance payment of the Indiana earned income tax credit.

To qualify for the advance earned income tax credit payment, the individual must be an Indiana resident, have a federal Form W-5 on file with the employer, and receive federal advance earned income tax credit payments from his/her employer.

To request an Indiana advance earned income tax credit payment, the employee must complete and sign Form WH-5, which the employer is required to maintain for three (3) years after the year that the form is completed by the employee.

The employer shall advance to the employee six percent (6%) of the federal advance earned income tax credit payment, but is not required to advance the credit payment if the amount is less than one dollar (\$1) per pay period.

III. REPORTING OF ADVANCE EARNED INCOME TAX PAYMENT AMOUNTS BY THE EMPLOYER

The total amount that the employer advances to all employees shall be reported when the employer remits the Indiana adjusted gross income tax withheld. The advance shall be deducted from the total tax withheld for all employees when calculating the net remittance that the employer is required to remit to the Department.

The total annual amount that the employer advances for the earned income tax credit payments will be reported on the Form WH-3, Annual Withholding Tax Reconciliation Return.

The total amount advanced to individual employees will be shown on the Form W-2 Wage and Tax Statement in the box directly beneath box 19, with 'INADV' directly beneath box 20.



Kenneth L. Miller
Commissioner